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SUBJECT: NIGERIA: 2007 INVESTMENT CLIMATE STATEMENT

REF: 06 STATE 178303

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¶1. (U) The following information is Nigeria's 2007 Investment Climate Statement.

#### Overview

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With an estimated population of 140 million, Nigeria is Africa's most populous nation. It offers investors a low-cost labor pool, abundant natural resources, and potentially the largest domestic market in sub-Saharan Africa. Unfortunately, much of that market potential is unrealized. Impediments to investment include inadequate infrastructure, corruption, an inefficient system of registering property, an inconsistent regulatory environment, restrictive trade policies, and slow and ineffective courts and dispute resolution mechanisms.

To succeed, investors must understand the Nigerian business environment and engage in problem solving with local staff, Nigerian partners and officials. Potential investors must cope with poorly maintained infrastructure and arbitrary policy changes. Security is of special concern. There are repeated cases of hostage taking in the oil-rich Niger Delta region. Inadequate law enforcement compounds the country's high crime rate, and sporadic outbreaks of communal violence continue.

Military rule ended with the May 1999 inauguration of President Olusegun Obasanjo, leader of the dominant People's Democratic Party. Obasanjo won a second term in Nigeria's largely peaceful April 2003 elections, but which were marred by significant electoral malpractice in some parts of the country. General elections are due in April 2007 and Obasanjo is constitutionally required to hand over power on May 29, 2007.

The government of Nigeria (GON) embarked on a reform program in late 2003 christened the National Economic Empowerment and Development Strategy (NEEDS). Freedom of expression and of the press is observed, and human rights violations have been reduced from the time of military rule, although the country's human rights record remains poor. Controls over foreign investment have been loosened, and earlier decrees inhibiting competition or conferring monopoly powers on public enterprises have been repealed or amended. Despite these actions, policymakers' protectionist bent remains evident. Trade policy is inconsistent, and the GON prohibits the importation of many goods, ostensibly to foster domestic production.

## Openness to Foreign Investment

Since 1999, President Obasanjo has traveled around the globe in pursuit of foreign investment.

**Legal Framework:** With a few exceptions, the Nigerian Investment Promotion Commission (NIPC) Decree of 1995 allows 100 percent foreign ownership of firms outside the petroleum sector, where investment is limited to existing joint ventures or new production-sharing agreements. Industries considered crucial to national security, such as firearms, ammunition, and military and paramilitary apparel, are reserved for domestic investors. Foreign investors must register with the NIPC after incorporation under the Companies and Allied Matters Decree of 1990. The decree prohibits the nationalization or expropriation of foreign enterprises except in cases of national interest.

Nigerian laws apply equally to domestic and foreign investors. These include the Securities and Exchange Act of 1999, the Foreign Exchange Act of 1995, the Money Laundering Act of 2003, the Banking and Other Financial Institutions Act of 1991, and the National Office of Technology Acquisition and Promotion Act of 1979.

**Privatization:** The Privatization and Commercialization Act of 1999 established the National Council on Privatization, the policymaking body overseeing the privatization of state-owned enterprises, and the Bureau of Public Enterprises (BPE), to implement the program. The privatization of key sectors, including telecommunications and power, calls for core investors to acquire controlling shares in formerly state-owned enterprises. The GON repealed or amended decrees that inhibited competition or conferred monopoly powers on parastatal firms. Since 1999, the BPE has raised over \$500 million by privatizing more than 100 enterprises, including cement manufacturing firms,

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banks, hotels, and vehicle assembly plants.

With the passage of the Power Sector Reform Bill in 2005, a power sector regulator, the Nigerian Electricity Regulatory Commission (NERC) was created with responsibility for tariff regulation and economic and technical regulation of the electricity supply industry. Since its inception, the NERC has issued nine licenses to independent power producers in the electricity industry.

The privatization of Nigeria's Power Holding Company of Nigeria (PHCN -- formerly the National Electric Power Authority or NEPA) has moved slowly. Given the complex nature of the sale and the entity's poor financial condition, privatization will likely be difficult. PHCN is moving slowly to restructure its services into autonomous firms encompassing power generation, transmission, distribution, and billing.

The GON has substantially opened Nigeria's telecommunications sector. The Telecommunications Act of 2001 authorizes the Nigerian Communications Commission (NCC) to issue licenses to existing and prospective service providers. Four enterprises, including NITEL, have licenses. Globacom won mobile, fixed, and international gateway licenses as Nigeria's second national operator in mid-2002. According to the NCC, the estimated total number of phone lines (both mobile and fixed line) in Nigeria at the end of August 2006 was 27.95 million and teledensity is 23.29. This is an improvement from the December 2005 figure of 19.8 million lines and teledensity of 16.27. The NCC began the unified licensing regime in May 2006, awarding the first batch of unified licenses to four telecommunication service providers. The unified license permits telecommunications companies to offer services across the board in telecommunications, including fixed line, wireless, data services, etc. This marks the end of the five-year exclusivity incentive granted the mobile telephone licensees in 2001.

The NCC recently announced its intention to auction radio spectrum in the 1800 MHz, 3G and 450 MHz bands, leading to the

award of new licenses. The NCC appointed the PA Consulting Group, a firm of international management consultants, to assist it with the licensing process slated for early 2007.

Telecommunications deregulation has led to the issuance of licenses for fixed wireless networks, internet services, and VSAT (very small aperture terminal) satellite telecommunications equipment services. However, the GON's hefty fees and opaque contract bidding procedures tend to slow the spread of these technologies.

#### Conversion and Transfer Policies

The Foreign Exchange Monitoring Decree of 1995 opened Nigeria's foreign exchange market. In February 2006, in accordance with its plan to liberalize the foreign exchange market, Nigeria adopted a Wholesale Dutch Auction System (W-DAS) which gives banks more control of the foreign exchange market, though the Central Bank retains its supervisory role over the market.

Foreign companies and individuals can hold domiciliary accounts in banks. Account holders have unlimited use of their funds, and foreign investors are allowed unfettered entry and exit of capital. There is a \$4,000 quarterly Personal Travel Allowance for foreign exchange and a \$5,000 quarterly Business Travel Allowance per individual. Foreign exchange for travel is usually issued in travelers checks by commercial banks while some authorized dealers also issue pre-paid cards that can be used on Visa machines worldwide. Persons may obtain lesser amounts in foreign exchange in a single transaction and travelers checks from registered bureau de change.

The NIPC guarantees investors unrestricted transfer of dividends (net a 10 percent withholding tax). Companies must provide evidence of income earned and taxes paid before making remittances. Money transfers usually take less than two weeks. All transfers are required by law to be made through banks, because banks are the only licensed foreign exchange agents.

#### Expropriation and Compensation

The GON has not expropriated or nationalized foreign assets since the late 1970s.

#### Dispute Settlement

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**Investment Disputes:** Nigeria's civil courts handle disputes between corporate bodies and the GON as well as between Nigerian businesses and foreign investors. The courts occasionally rule against the GON. Nigerian law allows the enforcement of foreign judgments after proper hearings in Nigerian courts. Plaintiffs receive monetary judgments in the currency specified in their claims.

**Legal System:** Nigeria has a complex three-tiered legal system composed of English common law, Islamic law, and Nigerian customary law. Most business transactions are governed by 'common law' as modified by statutes to meet local demands and conditions. At the pinnacle of the judicial system is the Supreme Court, which has original and appellate jurisdiction in specific constitutional, civil, and criminal matters as prescribed by Nigeria's constitution. The Federal High Court has jurisdiction over revenue matters, admiralty law, banking, foreign exchange, other currency and monetary or fiscal matters, and lawsuits to which the federal government or any of its agencies are party. Debtors and creditors rarely have recourse to Nigeria's pre-independence bankruptcy law. In the Nigerian business culture, businessmen generally do not seek bankruptcy protection. Even in cases where creditors obtain a judgment against defendants, claims often go unpaid.

The public increasingly resorts to the court system and is more willing to litigate and seek redress. However, use of the courts does not automatically imply fair or impartial judgments. In the

World Bank's publication, Doing Business 2007 How to Reform, which surveyed 175 countries including Nigeria, concluded GON efforts have led to improvements in the way business is conducted. Regarding the enforcement of contracts countries surveyed Nigeria was ranked 66 out of 175. This is an improvement compared with the 2005 survey where it was classified as the eighth slowest country to enforce contracts, out of 145 countries surveyed. In addition, the report revealed that contract enforcement required 23 procedures and 457 days, the cost of which averaged 27 percent of the value of the contract, an improvement from its 2005 position of 23 procedures, 730 days, and a cost of 37.2 percent of the value of the contract. The Nigerian court system has too few court facilities, lacks computerized document processing systems, and poorly remunerates judges and other court officials, all of which encourages corruption and undermines enforcement.

**Alternative Dispute Resolution:** The Arbitration and Conciliation Act of 1988 (the Arbitration Act) provides for a unified and straightforward legal framework for the fair and efficient settlement of commercial disputes by arbitration and conciliation. The Act established internationally competitive arbitration mechanisms, fixed proceeding schedules, provided for the application of the UNCITRAL (United Nations Commission on International Trade Law) arbitration rules or any other international arbitration rule acceptable to the parties, and made the Convention on the Recognition and Enforcement of Arbitral Awards (New York Convention) applicable to contract enforcement, based on reciprocity. The Act allows parties to challenge arbitrators and provides that an arbitration tribunal shall ensure that the parties are accorded equal treatment, and that each party has full opportunity to present its case.

#### Performance Requirements/Incentives

Nigeria regulates investment in line with the World Trade Organization's Trade-Related Investment Measures (TRIMS) Agreement. Foreign companies operate successfully in Nigeria's service sector, including telecommunications, accounting, insurance, banking, and advertising. The Securities and Exchange Act of 1988, amended in 1999 and renamed the Investment and Securities Act, forbids monopolies, insider trading, and unfair practices in securities dealings.

To meet performance requirements, foreign investors must register with the Nigerian Investment Promotion Commission, incorporate as a limited liability company (private or public) with the Corporate Affairs Commission, procure appropriate business permits, and (when applicable) register with the Securities and Exchange Commission. Manufacturing companies are sometimes required to meet local content requirements. Expatriate personnel do not require work permits, but they are subject to "needs quotas" requiring them to obtain residence permits that allow salary remittances abroad. Larger quotas are allowed for

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professions deemed in short supply, such as deepwater oilfield divers. U.S. companies often report problems obtaining quota permits.

The GON maintains many different and overlapping incentive schemes. The Industrial Development/Income Tax Relief Act No. 22 of 1971, amended in 1988, provides incentives to pioneer industries deemed beneficial to Nigeria's economic development and to labor-intensive industries, such as apparel. Companies that receive pioneer status may benefit from a nonrenewable 100 percent tax holiday of five years (seven years if the company is located in an economically disadvantaged area). Industries that use 60 to 80 percent local raw materials may benefit from a 30 percent tax concession for five years, and investments employing labor-intensive modes of production may enjoy a 15 percent tax concession for five years. Additional incentives exist for the natural gas sector, including allowances for capital investments and tax-deductible interest on loans. The GON encourages foreign investment in agriculture, mining and mineral extraction (non-oil), oil and gas, and the export sector. In practice, these

incentive programs meet with varying degrees of success.

**Technology Transfer Requirements:** The National Office of Industrial Property Act of 1979 established the National Office of Technology Acquisition and Promotion (NOTAP) to facilitate the acquisition, development, and promotion of foreign and indigenous technologies. NOTAP registers commercial contracts and agreements dealing with the transfer of foreign technology and ensures that investors possess licenses to use trademarks and patented inventions and meet other requirements before sending remittances abroad. With the Ministry of Finance, NOTAP administers 120 percent tax deductions for research and development expenses if carried out in Nigeria and 140 percent deductions for research and development using local raw materials.

NOTAP recently shifted its focus from regulatory control and technology transfer to promotion and development. With the assistance of the World Intellectual Property Organization, NOTAP has established a patent information and documentation center for the dissemination of technology information to end-users. The office has a mandate to commercialize institutional research and development with industry.

**Import Policies:** Tariffs provide the GON its (distant) second largest source of revenue after oil exports. Frequent policy changes and uneven duty collection make importing difficult and expensive and create severe bottlenecks. Nigeria's dependence on imports aggravates the situation. In October 2005, the GON announced that it was implementing the ECOWAS Common Economic Tariff (CET) regime, which places all items in one of five tariff bands.

Bans prohibit the import of various goods including meat, fresh fruit, cassava, pasta, fruit juice in retail packs, toothpicks, soaps and detergents, textiles, plastics, and barite. In 2006, the GON removed some textile items from its list of prohibited imports. The GON announced in late 2004 that it would phase out the bans by January 2007 in line with the conclusion of negotiations with its West African neighbors under the ECOWAS CET. Unfortunately, the expected the CET negotiations are unlikely to conclude before 2008 and the government has announced that bans will be phased out 'over time'.

The Nigerian Customs Service (NCS) and the Nigerian Ports Authority (NPA) have exclusive jurisdiction over customs services and port operations. Nigerian law allows importers to clear goods on their own, but most importers employ clearing and forwarding agents.

Many importers under-invoice shipments and engage in currency arbitrage to minimize tariffs and lower their landed costs. Others ship their goods to ports in neighboring countries, after which they are transported overland. The GON began a destination inspection regime in January 2006, which had earlier been shelved on four different occasions since 2002. Under the destination inspection scheme, goods destined for Nigeria's ports would be inspected at the point of entry rather than at the point of shipment. Guidelines for the new scheme were announced, and three companies were awarded a seven-year contract to act as inspection agents at Nigeria's seaports, border posts, and airports. The companies are Cotecna, SGS, and Global Scan. The exclusive contract will expire by 2012, if Nigerian Customs

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officials have completed training on the new scheme and on the handling of the scanning machines, which would be handed over to the NCS at the expiration of the contract.

Shippers report that efforts to modernize and professionalize the NCS and the NPA have reduced port congestion and clearance times, particularly at Lagos' Apapa Port, which handles over 40 percent of Nigeria's trade. This is particularly the case for container traffic. Nevertheless, bribery of customs and port officials remains commonplace, and smuggled goods routinely enter Nigeria's seaports and cross its land borders.

Export Incentives: Most export incentives were recently abolished, though the government is reviewing reinstating some selected incentives.

Although highly underused, the Nigerian Export-Import Bank provides commercial bank guarantees and direct lending to facilitate export sector growth. The bank's Foreign Input Facility provides normal commercial terms of three to five years (or longer) for the importation of machinery and raw materials used for generating exports.

Agencies meant to promote industrial exports remain burdened by uneven management, vaguely defined policy guidelines, and corruption. Nigeria's high production costs because of inadequate infrastructure and strong currency also leave Nigerian exporters at a disadvantage.

Government Procurement: The GON awards contracts under an open-tender system, advertising tenders in Nigerian newspapers and opening them to domestic and foreign companies. Procurement has become slightly more transparent, but corruption persists.

Procurement for capital projects is often subject to over-invoicing, which permits improper payments to private and public sector officials. Many U.S. companies claim they are disadvantaged in obtaining GON contracts, even when they appear to have the best bids in technical and financial terms. Unsuccessful U.S. bidders sometimes allege collusion between foreign competitors and key GON officials.

The Budget Monitoring and Price Intelligence Unit (BMPIU) acts as a clearinghouse for government contracts and procurement, and monitors the implementation of projects to ensure compliance with contract terms and budgetary restrictions. Procurements above N50 million (about \$380,000) are subject to full "due process," as the process is called, by the BMPIU. The GON has submitted public procurement legislation to the National Assembly to reorganize the BMPIU as a Bureau of Public Procurement. This act would require similar legislation to be enacted and procurement offices to be created by the state and local governments.

Visa Requirements: Investors sometimes encounter difficulties acquiring entry visas and residency permits. Foreigners must obtain entry visas from Nigerian embassies or consulates abroad, seek expatriate position authorization from the Nigerian Investment Promotion Commission, and request residency permits from the Nigerian Immigration Service. Investors report that this cumbersome process can take from two to 24 months and cost from \$1,000 to \$3,000 in facilitation fees.

#### Right to Private Ownership and Establishment

In accordance with the NIPC Decree of 1995, the GON supports competitive business practices and protects private property.

#### Protection of Property Rights

The GON recognizes secured interests in property, such as mortgages. The recording of security instruments and their enforcement are subject to the same inefficiencies as those in the judicial system. The World Bank's publication, Doing Business 2007 How to Reform, reported that Nigeria has the sixth least efficient system for registering property, requiring 16 procedures and 80 days, at a cost of 21.2 percent of the property value. In 2005, Nigeria was classified as the least efficient of 145 countries surveyed, requiring 21 procedures and 274 days, at a cost of 27.2 percent of the property value.

Fee simple property rights are rare. Most property is long-term leases with certificates of occupancy acting as title deeds. Transfers are complex and must usually go through state

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governor's offices. In Abuja, the Federal Capital Territory cancelled and began a process of reregistering all property

allotments, refusing to renew those it deemed not in accordance with the city master plan. Buildings on these properties have frequently been demolished, even in the face of court injunctions. Therefore acquiring and maintaining rights to real property are a major challenge.

Nigeria is a member of the World Intellectual Property Organization (WIPO) and a signatory to the Universal Copyright Convention, the Berne Convention, and the Paris Convention (Lisbon text). The Patents and Design Decree of 1970 governs the registration of patents, and the Standards Organization of Nigeria is responsible for issuing patents, trademarks, and copyrights. Once conferred, a patent conveys an exclusive right to make, import, sell, or use a product or apply a process. The Trademarks Act of 1965 gives trademark holders exclusive rights to use registered trademarks for a specific product or class of products. The Copyright Decree of 1988, based on WIPO standards and U.S. copyright law, makes it a crime to export, import, reproduce, exhibit, perform, or sell any work without the permission of the copyright owner. Nigeria's copyright statutes also include the National Film and Video Censors Board Act and the Nigerian Film Policy Law of 1993.

In 1999 amendments to the Copyright Decree incorporate trade-related aspects of intellectual property rights (TRIPS) protection for copyrights, except provisions to protect geographical indications and undisclosed business information. Four TRIPS-related bills and amendments have been forwarded to the National Assembly. An amendment to the Copyright Act is also expected to be forwarded to the National Assembly during the first quarter of 2007. The bills would establish an Intellectual Property Commission, amend the Patents and Design Decree to make comprehensive provisions for the registration and proprietorship of patents and designs, amend the Trademarks Act to improve existing legislation relating to the recording, publishing, and enforcement of trademarks, and provide protection for plant varieties (including biotechnology) and animal breeds.

The GON has signed the WIPO Internet treaties but has yet to ratify them. The NCC claims, however, that it is already implementing the terms of the treaties.

Patent and trademark enforcement remains weak, and judicial procedures are slow and subject to corruption. Relevant Nigerian institutions suffer from low morale, poor training, and limited resources. A key deficiency is inadequate appreciation of the benefits of IPR protection among regulatory officials, distributor networks, and consumers. The over-stretched and under-trained Nigerian police have little understanding of intellectual property rights. The Nigerian Customs Service has received some WIPO-sponsored training, but officers who identify pirated imports are not allowed to impound offending materials unless the copyright owner has filed a complaint against a particular shipment, which happens rarely.

Companies do not often seek trademark or patent protection, the enforcement mechanisms of which they consider ineffective. Nonetheless, recent efforts to curtail abuse have yielded results. The Nigerian police and the NCC have raided enterprises producing and selling pirated software and videos, and a number of businesses have filed high-profile charges against IPR violators. In June 2004 in Lagos, duplicating equipment worth over \$5 million was seized. Microsoft reported successful raids in 2002, and a bank using its software illegally was forced to buy an appropriate license.

Most raids involving copyright, patent, or trademark infringement appear to target small rather than large and well-connected pirates. Very few cases have been successfully prosecuted. Most cases are settled out of court, if at all. Those adjudicated in court are handled primarily by the Federal High Court, whose judges are generally broadly familiar with intellectual property rights law.

#### Transparency of the Regulatory System

Nigeria's legal, accounting, and regulatory systems are consistent with international norms, but enforcement is uneven.

There are sometimes opportunities for public comment and input into proposed regulations.

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Professional organizations set standards for the provision of professional services: e.g., accounting, law, medicine, engineering, and advertising. These standards are usually consistent with international norms. No legal barriers prevent entry into business.

**Taxation:** In general, Nigeria's tax laws do not impede investment, but the imposition and administration of taxes is highly uneven and lacks transparency. Tax evasion is common, and individuals and businesses often collude with relevant officials to avoid paying taxes. Nigeria has signed double taxation agreements with several countries, including Great Britain, France, the Philippines and Japan. The GON imposes a 7.5 percent tax rate on dividends, interest, rent, and royalties when paid to a bona-fide beneficiary under a tax treaty.

Multiple taxes are a problem for businesses at state and local levels. Companies within concurrent state and local jurisdictions may be expected to pay several taxes and levies.

#### Efficient Capital Markets and Portfolio Investment

The Nigerian Investment Promotion Commission Decree of 1995 liberalized Nigeria's foreign investment regime, which has facilitated access to credit instruments provided by financial institutions. Foreign investors who have incorporated their companies in Nigeria have equal access to all financial instruments. Many investors consider the capital market, specifically the Nigerian Stock Exchange (NSE), a financing option, given commercial banks' high lending rates and short maturities of debt instruments.

Trading on the NSE remained buoyant in 2006. The exchange operates nine branches nationwide, and the volume of shares traded and market capitalization continues to rise. The introduction of the contributory pension system in late 2005, GON's divestment of equity in parastatal companies as well as initial public offerings (IPOs) and issuances of additional shares by listed companies have contributed to the exchange's growth. The NSE continues to expand its membership and investor pool. Currently, 260 equities are listed on the exchange.

Government debt instruments are available. Since the inception of the present civilian government in 1999, state governments have availed themselves of opportunities on the Nigerian capital market. About five state governments have issued bonds to finance development projects. The Nigerian Securities and Exchange Commission (SEC) has issued stringent guidelines for states that wish to raise funds on capital markets, such as a credit assessment conducted by a recognized credit rating agency. The credit rating agencies recognized by the SEC are Agosto and Co., and Global Credit Rating (GCR) of South Africa. The GON has also begun issuing bonds of 2-5 years maturity to restructure its domestic debt portfolio, which heretofore has consisted primarily of treasury bills of 90-180 days maturity.

**Banking System:** As of December 2006, twenty-five commercial banks are operating in Nigeria.

**Health of the Banking System:** Following its early 2004 assessment, the CBN embarked on a reform of the banking system. On July 6, 2004 the CBN announced a fourteen-point reform program for the banking industry. The cardinal point of the reform program was the new minimum capital requirement of 25 billion naira (\$190 million) that all commercial banks must meet by December 31, 2005. The new capital requirement led to consolidation in the industry in the form of mergers and acquisitions. At the end of the consolidation deadline, seventy-five banks merged into twenty-five banking groups in contrast to the eighty-nine banks that existed at the end of December 2004.



## Political Violence

Social unrest, religious and ethnic strife, and crime affect many parts of Nigeria. In the oil-rich Niger Delta region, decades of official neglect, persistent poverty, as well as dislocations and environmental damage caused by energy projects, have aggravated socioeconomic unrest. Sabotage and vandalism of pipelines and other installations and kidnapping of Nigerian and expatriate oil workers are regular occurrences. Many of these criminal activities are designed to extort cash from foreign operators.

The Niger Delta Development Commission (NDDC) has a mandate to

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implement social and economic development projects in the Delta region, but the NDDC has been ineffective. State and local governments offer few social services and Niger Delta residents continue to seek direct payments and other assistance from oil companies. Some have implemented their own socioeconomic development programs to assist local communities, but many communities consider the company programs inadequate.

Nigeria continues to experience communal violence. In November 2002, riots sparked by an editorial regarding the Miss World pageant left more than 200 dead in Kaduna. Violence in the North-eastern state of Adamawa resulted in 100 deaths in the first half of 2003, and sporadic ethno-religious violence in Plateau State resulted in several hundred deaths and the declaration of martial law in early 2004. In February 2006, riots in response to the Danish cartoon publication took place in the north-eastern city of Maiduguri with reprisal attacks in the south-eastern city of Onitsha. The violence led to the death of over thirty people. Vigilante groups in various parts of the country have exacerbated violence.

## Corruption

Domestic and foreign observers recognize corruption as a serious obstacle to economic growth and poverty reduction. Nigeria was 14th in Transparency International's 2006 Corruption Perceptions Index, an improvement from its sixth position in the 2005 Corruption Perceptions Index.

The Corrupt Practices and Other Related Offences Act of 2001 established an Independent Corrupt Practices and Other Related Offences Commission (ICPC) to prosecute individuals, government officials, and businesses accused of corruption. Over 19 offenses are punishable under the Act, including accepting or giving gratification, fraudulent acquisition of property, and concealment of fraud. Nigerian law stipulates that giving and receiving bribes are criminal offenses and, as such, are not tax deductible. Despite the new legislation, few people have been indicted, and corruption remains endemic.

The Economic and Financial Crimes Commission (EFCC) was established to prosecute individuals involved in financial crimes and other acts of economic sabotage. The EFCC has been successful in obtaining some high profile convictions such as the prosecution of the former Inspector General of Police, and it is presently pursuing a case against two former governors in the law courts. The Paris-based Financial Action Task Force removed Nigeria from its list of Non-Cooperative Countries and Territories in June 2006. Nigeria is a pilot participant in the Extractive Industry Transparency Initiative, which seeks to ensure audits of Nigeria's oil accounts. Nigeria is a signatory to the UN Anticorruption Convention, but has yet to ratify it.

## Bilateral Investment Agreements

Investment Agreements: While a Trade and Investment Framework Agreement (TIFA) has been signed with the United States, a bilateral investment treaty is not in place. Nigeria has bilateral investment agreements with the United Kingdom, Germany, Belgium, South Africa, Italy, Argentina, Egypt, South Korea, China, Jamaica, Sweden, Switzerland, Turkey, Uganda, France, Taiwan, Netherlands and Romania.

## Investment Insurance Programs

The U.S. Overseas Private Investment Corporation offers all its products to U.S. investors in Nigeria.

## Labor

Over the past decade, Nigeria's skilled labor pool has declined as vocational and university educational standards have plummeted, mainly because of poor funding. Given the low employment capacity of Nigeria's formal sector, over half of all Nigerians work in the informal sector and agriculture. In the formal sector, companies involved in businesses such as banking and insurance possess an adequately skilled workforce (often trained abroad, in private institutions, or at the better-funded universities). In the manufacturing sector, workers often require additional training and supervision, but there are too few supervisory personnel to ensure that this is done well. Labor-management relations in some sectors, especially in the country's profitable oil and gas industries, are strained.

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**The Right of Association:** Nigeria's Constitution guarantees the rights of free assembly and association and protects workers' rights to form or belong to trade unions. Several statutory laws nonetheless restrict the rights of workers to associate or disassociate with labor organizations. Since the establishment of the single trade federation system in 1978, non-management senior staff has been prohibited from joining government-recognized trade unions. Although the Trade Union Congress and the Congress of Free Trade Unions are regarded as influential labor federations, the two senior staff associations are denied seats on Nigeria's National Labor Advisory Council (NLAC). A bill to amend the law is working its way through the National Assembly.

Nigeria's single central labor federation, the Nigeria Labour Congress (NLC), comprises twenty-nine industrial unions. According to figures provided by the NLC, total union membership at the end of 2002 was about 4 million. Less than 10 percent of the total work force is unionized, and except for a few workers engaged in commercial food processing, those in the agricultural sector, which employs the bulk of the work force, are not organized.

**Collective Bargaining:** Collective bargaining occurred throughout the public sector and the organized private sector in 2002 and 2003, but public sector employees have become increasingly concerned about the GON's commitment to the collective bargaining process in resolving conflicts. According to the NLC, the GON's failure to implement agreements threatens to "devalue the enviable record of dialogue, consultation, and mutual trust that has characterized the relationship between the GON and the NLC since 1999."

Collective bargaining in the petroleum industry is relatively efficient compared to other sectors. Except for a longstanding unresolved dispute over the industry's use of contract labor, issues pertaining to salaries, benefits, health and safety, and working conditions tend generally to be resolved quickly through negotiations. Organized labor's efforts to address broad political issues, however, have resulted in industrial actions, such as general strikes over fuel prices that continue to affect industry productivity.

Workers under collective bargaining agreements cannot participate in strikes unless their unions comply with the requirements of the law, which includes provisions for mandatory mediation and referral of disputes to the GON. The law provides the GON the option of referring matters to a labor conciliator, an arbitration panel, a board of inquiry, or the National Industrial Court (NIC). Although the law forbids employers from granting general wage increases to workers without prior government approval, the law is not often enforced. Strikes in both the

private and public sectors occur frequently.

The Nigerian labor minister may refer unresolved disputes to the Industrial Arbitration Panel (IAP) and the NIC. Union officials question the effectiveness and independence of the NIC in view of its refusal to resolve disputes stemming from the GON's failure to fulfill contract provisions for public sector employees. Union leaders criticize the arbitration system's dependence on the labor minister's referrals.

**Child Labor:** Nigeria has ratified the International Labor Organization (ILO) convention on the elimination of the worst forms of child labor. The 1974 Labor Decree and the 1979 Constitution prohibit forced or compulsory labor and restrict the employment of children under the age of 15 to home-based agricultural or domestic work for no more than eight hours per day. The Decree allows the apprenticeship of youths as of the age of 13 under specific conditions.

Despite this, Nigeria's weak economy has forced many children into commercial activities to enhance family income. The ILO estimates that about 12 million children between the ages of 10 and 14 (25 percent of all Nigerian children) were employed in some capacity in 2002, often as beggars, hawkers, or domestic servants.

**Acceptable Conditions of Work:** Nigeria's 1974 Labor Decree provides for a 40-hour workweek, two to four weeks of annual leave, and overtime and holiday pay for all workers except agricultural and domestic. No law prohibits compulsory overtime.

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The Decree establishes general health and safety provisions, some of which are specific to young or female workers, and requires the factory division of the Ministry of Labor and Employment to inspect factories for compliance with health and safety standards. Under-funding and limited resources undermine the agency's oversight capacity, and construction sites and other non-factory work sites are often ignored. Nigeria's labor law requires employers to compensate injured workers and dependent survivors of laborers killed in industrial accidents, but the Labor Ministry has been ineffective in identifying violators and has failed to implement ILO recommendations to update its inspection program and reporting of accidents.

#### Foreign Trade Zones/Free Ports

To attract export-oriented investment, the GON established the Nigerian Export Processing Zone Authority (NEPZA) in 1992. NEPZA allows duty-free import of all equipment and raw materials into its zones. Up to 25 percent of production in an export processing zone may be sold domestically upon payment of applicable duties. Investors in the zones are exempt from foreign exchange regulations and taxes and may freely repatriate capital.

Of the five export processing zones established under NEPZA, just two, in Calabar and Onne, function properly. In 2001, both were converted into free trade zones, thereby freeing them from the export requirement. As a result, investment is quickly moving into Calabar, almost exclusively in industries that add value to imports. Another free trade zone, the Tinapa Free Trade Zone owned by the Cross River state government is expected to be commissioned during the first quarter of 2007. Oil and gas companies use the Onne free port zone as a bonded warehouse for supplies and equipment and for the export of liquefied natural gas.

#### Foreign Direct Investment

According to data from the United Nations World Investment Report of 2006, in 2005 the stock of foreign direct investment (FDI) in Nigeria was estimated at \$34.8 billion, which accounted for about 35.1 percent of GDP. Total FDI Inflow was \$3.4 billion in 2005 and accounted for 31.2 percent of gross fixed capital formation. The stock of U.S. FDI in Nigeria totaled \$2.1 billion in 2003, up

from \$1.8 billion the year before. Most FDI is concentrated in the oil and gas sector. Oil companies report that much FDI continues to fund oil and gas exploration and production, liquefied natural gas projects, and related activities. Some FDI is channeled into telecommunications and manufacturing, but the total remains small relative to oil sector investment.

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